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C O N F I D E N T I A L SECTION 01 OF 02 KINSHASA 001365

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DEPT PASS TO USTR (WJACKSON), OPIC (JEDWARDS)

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TAGS: [ETRD](#) [ECON](#) [KCOR](#) [EPET](#) [PGOV](#) [CG](#)

SUBJECT: DOING BUSINESS WITH THE DRC: CAVEAT EMPTOR

Classified By: ECONOFF W.BRAFMAN FOR REASONS 1.4 b/d

11. (SBU) Summary. An increasing number of attempts to defraud potential American investors and traders have come to Post's attention in the past few months. While most are occurring in the extractive industries sector, driven by high global market prices, other sectors are not immune. Blatantly fraudulent documents and requests for bribes and illegal gratuities are common in such deals. As the transitional government's tenure comes ever closer to its end, and with corrupt officials attempting to line their pockets, the business climate becomes slightly more risky.

THE COPPER RUSH

12. (U) Some commodity prices are hovering at all-time highs, attracting many to the sector in search of a seemingly quick and easy profit. (Note: August 29, the three-month copper price was about USD 7500 per ton on the London Metals Exchange. End note.) As a result, even persons with little knowledge of the DRC's extractive industries sector are trying to enter the market and find a way to make a profit.

13. (C) Two such proposed transactions have come to the attention of EconOffs in the past month. The sale documents and terms have clearly demonstrated that neither proposed sale is legitimate. For example, one person who identified himself as an American businessman contacted the Econ Section and asked that it review documents for a purchase from an alleged Congolese copper trading company (seller). The seller incorporated Gecamines (the DRC's copper mining parastatal) into its title, apparently trying to appear official, incorporating the national flag, and listing Olivier Kamitatu, a prominent DRC politician, as the financial director. (Note: In March, the Econ Section received a separate inquiry in connection with another evidently bogus offer from the same Congolese company, who was then offering to sell a quantity of copper cathode beyond the current processing capacity in the DRC. End note.) The seller offered the buyer 3500 metric tons of copper cathode sheets, asking only for an advance payment of shipping costs, payable via Western Union. The address provided on the documents was false, as was the seller's website.

THE PETROLEUM SECTOR TOO

14. (C) Fraud and bribery, combined with a relative rush of

activity, are also marking the petroleum sector. The petroleum potential of Africa's west coast, from the Gulf of Guinea to Angola, has brought a variety of interested investors to the DRC, including several Americans. EconCouns and EconOff met July 5 with two Americans who said they have been trying since 2001 to invest in the DRC's petroleum sector via the company they formed (B&B). (Note: One of the entity's current partners was initially in the DRC trying his hand at the diamond business, a venture he described as disastrous. End note.) Their effort is a text book example of the difficulties and hazards of trying to do business in the DRC, and gives a revealing picture of the pervasive culture of corruption, while leaving open the question of who is attempting to scam whom.

15. (C) In the course of B&B's attempts to conclude deals, the partners report they have been asked for bribes, been nearly defrauded, dealt with four different energy ministers, and have been strung along for years. They said that in one instance, like scenes out of a Hollywood movie, an elaborate hoax was set up in which a Congolese man posed as the Minister of Energy, while others pretended to be part of his staff. B&B met several times with these impostors at the Ministry of Energy, and was about to pay USD 500,000 to the alleged Minister, before claiming to uncover the con as a result of information received from the Econ Section. Despite this setback, B&B signed two Memoranda of Understanding (essentially just agreements to negotiate further) in 2005 for offshore and onshore blocks with the real Minister of Energy. These deals are now at an impasse, despite B&B's persistence during repeated trips to the DRC.

16. (C) In addition to the attempted hoax, B&B's principals said they have encountered blatant requests for bribes during

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virtually every meeting with GDRC officials. Some officials told B&B that payments would support political campaigns. Further, B&B partners commented that they have yet to meet any GDRC officials who have substantive knowledge of the petroleum sector and that they have met only one official - the Minister of Interior - who expressed even a modicum of concern for the DRC's welfare. Frustrated, the B&B partners said that they have begun to consider giving up on the DRC.

17. (C) Another American in the petroleum business has recounted to EconOffs a similar story of encountering a corrupt, inept system. A businessman identifying himself as Board Chairman (Chair) of EnerGulf, a Toronto Stock Exchange-listed company, met with EconOffs in November 2005. EnerGulf's Chair said the company was on the verge of obtaining exploration rights for two onshore blocks in the DRC, near Cabinda. Some days later, the company found itself ensnared in a web of double dealings amid a flurry of negotiations for several DRC onshore blocks, just before the then-Minister of Energy was replaced. (Comment: It is likely that the Minister knew of his impending removal and that the timing of the negotiations was not coincidental. End comment.) EnerGulf's Chair said that his company's Congolese attorney had also represented other parties in negotiations with the GDRC and had shared EnerGulf's confidential information. He also said that the Energy Ministry officials made contradictory promises to various negotiating parties.

18. (C) Unlike B&B, however, EnerGulf may already have been defrauded. EnerGulf ultimately obtained an agreement for a share of just one onshore block and paid USD 500,000 as a "signing bonus" for the exploration rights, in addition to USD 50,000 to purchase "geological data" from the DRC. Despite persistent efforts, it has been unable to get the presidential decree needed to approve the project, and the Bretton Woods institutions have since asked that the GDRC refrain from signing new extractive industries' sector contracts, at least through the end of the 2006 (septel).

COMMENT

19. (C) The questionable transactions and the misadventures of potential investors not only highlight the DRC's entrenched corruption, but also confirm that this is no place for an inexperienced investor probably tempted at least in part by the prospect of rapid good returns. Many businesspersons come to the DRC thinking that they will take advantage of high commodity prices and disorganized, seemingly unsophisticated government. What they often find that is they who are taken advantage of. End comment.

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